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## Revised VSME after Public Consultation – Approval

### Cover Note PART B

#### Objective

- 1 The objective of this meeting is to approve the VSME standard at SR TEG as a technical recommendation to be issued by EFRAG SRB to the European Commission, subject to further editorial changes.
- 2 Agenda Papers 04-02 and 04-03 are the updated versions (with and without markup) of the VSME that EFRAG Secretariat has amended following the various discussions (listed below) held at SR TEG to review the changes of the VSME after public consultation.
- 3 Considering the status of the discussion, the EFRAG Secretariat note that an agreement was reached on the content of VSME per each of the disclosures discussed in the meetings in September and October, subject to redrafting some of them, with the exception of **disclosures C5, C6, C7 of the Comprehensive Module**, as they have not yet been discussed in detail by TEG. This is why they are highlighted in **yellow** both in this cover note and in agenda paper 04-02.
- 4 Depending on the outcome of the discussion in this meeting, the EFRAG SR TEG could already approve the text except for the parts in yellow.

#### Background

- 5 Following the public consultation, in July 2024 EFRAG proposed to SR TEG and SRB a series of structural and content related changes to the VSME ED published in January. During the SRB meeting of the 10 and 17 July 2024 and the SR TEG meetings of the 16 July 2024, the strategic and technical orientations were discussed. Moreover, EFRAG SR TEG members were invited to send written feedback only on the Business Partners Module during the summer.
- 6 In addition, EFRAG Secretariat organised a workshop on September 16 with European and national banking associations with the aim to test the changes implemented in the Revised VSME after public consultation (in particular the additional module that included banks specific data requests). A verbal update of the outcome of this workshop was provided during the meeting on the 19 September 2024.
- 7 EFRAG Secretariat also organised a workshop with SMEunited on 23 September 2024. The EFRAG SR TEG has been debriefed on the outcome of such workshop in the meeting of the 26<sup>th</sup> of September 2024.

### Users' perspective of this standard

- 8 In the [EC Q&A accompanying the adoption of the Delegated Acts ESRS in July 2023](#), it is specified that *EFRAG is developing simpler, voluntary standards for use by non-listed SMEs. These voluntary standards should enable non-listed SMEs to respond to requests for sustainability information in an efficient and proportionate manner, and so facilitate their participation in the transition to a sustainable economy.*
- 9 The [EC SME Relief Package of September 2023](#) refers to **VSME as a measure to support SMEs in accessing sustainable finance**. In Par. 4 - it is mentioned that the *Commission will ensure that SMEs have a simple and standardized framework to report on ESG issues [.....] and ensuring the rapid delivery of voluntary standards for non-listed SMEs.*
- 10 Reflecting the above, the logic followed in the standard setting has been to start from the identification of a proportionate set of indicators that would be a credible replacement for at least a substantial component of the questionnaires that are currently used by lenders, investors and corporate clients. The societal angle of standard setting, i.e. providing a complete picture of the ESG impacts that would inform stakeholders other than lenders, investors and corporate clients in keeping the SME accountable for its impacts is not the focus. However, views of civil society and other stakeholders (outside the users of this VSME) may inform about the ability of VSME to fulfil the second objective of the standard, i.e. to provide a simplified tool to the entrepreneur that intend to improve its sustainability profile.

### Recap of public consultation and field test respondents:

- 11 During the public consultation EFRAG Secretariat received comments from 311 respondents of which:
  - (a) 126 preparers;
  - (b) 39 users; and
  - (c) 146 other respondents
- 12 During the field test EFRAG Secretariat received comments from 164 respondents of which:
  - (a) 111 preparers;
  - (b) 24 proxy for preparers; and
  - (c) 29 users or proxy for users
- 13 During the public consultation, ERAG Secretariat also received 22 comment letters on top of the online survey respondents.

### Overview of meetings held since the end of the public consultation:

- 14 Following the end of the public consultation, EFRAG Secretariat discussed the results with both SR TEG and SRB in July. During these discussions, SR TEG and SRB approved the strategic orientations to be implemented based on the proposals presented by EFRAG Secretariat. Following the discussions with SR TEG and SRB in July, EFRAG secretariat modified the draft VSME standard accordingly and during a series of SR TEG discussions in September and October, it reviewed these changes with SR TEG. Additionally, EFRAG Secretariat held two additional meetings with preparer and user associations to ensure

## Revised VSME after Public Consultation – Approval – Cover Note PART B

coherency between public consultation results and the opinions of preparer and user associations. The dates of all these mentioned meetings are mentioned below:

### SR TEG Meetings

- (a) Review of the strategic orientations proposed by EFRAG Secretariat following the end of the public consultation (16 July 2024).
- (b) Review of cross-cutting disclosure changes (including B1 + B2) implemented following the decisions taken at SR TEG and SRB level in July based on the results of the public consultation (12 September 2024).
- (c) Initiation of the review of the Basic module (disclosures B3-B7) following the decisions taken at SR TEG and SRB level in July based on the results of the public consultation (19 September 2024).
- (d) Continuation of the review of the Basic module (disclosures B8, B9 plus former AFI 4) following the decisions taken at SR TEG and SRB level in July based on the results of the public consultation (26 September 2024).
- (e) Conclusion of the review of the Basic module (B10 – B11), along with the initiation of the review of the Comprehensive module (entity-specific consideration/ scope 3 and C1-C4) following the decisions taken at SR TEG and SRB level in July based on the results of the public consultation (7 October 2024).
- (f) SR TEG approval initiation (10 October 2024) – cross-cutting and Basic module.
- (g) Continuation of the review of the Comprehensive module (C5, C6, and C7) along with Simplified Taxonomy placeholder module.

### SRB Meetings

- (h) VSME Strategic direction on proposed changes to respond to the feedback of the public consultation (10 July 2024)
- (i) Continuation of discussion on VSME proposed restructuring (17 July 2024).
- (j) Update VSME after public consultation (16 October 2024)

### Meetings with preparer and user associations held following public consultation

- (k) Workshop with European and national banking associations (16 September 2024).
- (l) Workshop with SME associations (23 September 2024).

### Overview of the changes to the ED after public consultation

15 At the SRB and SR TEG meetings in July, EFRAG Secretariat proposed a series of both structural and disclosure level changes to SR TEG and SRB stemming from public consultation and field test. On this basis the main technical and strategic orientations approved in July by SRB and SRT are the following:

#### 16 **Structural/ overarching changes:**

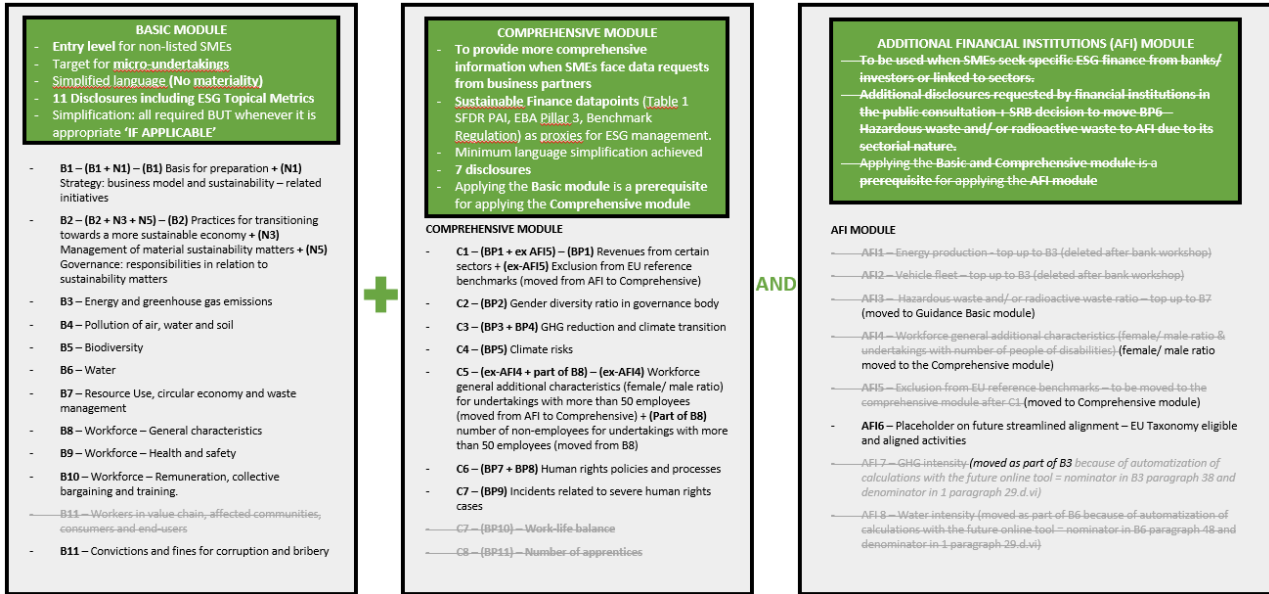
- (a) The Narrative-PAT module has been deleted. The content of the former disclosure N1 has been integrated into disclosure **B1** (Basis for preparation – Basic module) and the content of former disclosures N3 and N5 has been integrated into **B2** (Practices, policies and future initiatives for transitions towards a more sustainable economy – Basic module) in a very simplified format (seminarrative/ table covering the

## Revised VSME after Public Consultation – Approval – Cover Note PART B

sustainability matters in AR 16). Disclosures N2 and N4 have been removed from the standard entirely.

- (b) The former Business Partners module has now been renamed **Comprehensive module**. The change of name was requested in the public consultation to flag that business partners may request more comprehensive information beyond what they cover via the Basic module.
- (c) **Materiality** has been removed entirely. No materiality analysis is now asked to be performed by SMEs. Instead, for former disclosure N3 (now included in B2), a simplified and guided policy-action-target disclosure has been implemented in the standard's guidance - to be reported only if the SME has them in place. The simplification was tested with both SMEs and banks representative and received strong support as it is expected to remove a large burden for reporting SMEs and also provide standardised disclosures for users' business partners.
- (d) Additionally, a clear request that stemmed out from the public consultation has been the development of an **online tool** to serve as a simplified and guided process for SMEs to use when disclosing their information. This tool will not be made by EFRAG and will be created upon discretion of the European Commission, following the delivery of EFRAG Secretariat's technical advice on the VSME standard in December 2024.
- (e) An additional **placeholder** module for an upcoming **simplified EU taxonomy** for SMEs has been placed into the standard.
- (f) During public consultation, financial institutions (users) requested to insert additional bank-specific datapoints to supplement the content of the existing modules. As such, a new module called "Additional Financial Institutions" was proposed to SRB and SR TEG in July. During the SRB and SR TEG meetings in July, EFRAG Secretariat stated that these datapoints would have to be further discussed in bilateral meeting with banking associations. EFRAG Secretariat then organised a workshop with the banking associations during which it also discussed the disclosures and datapoints of the Additional Financial Institutions module. As a result of the workshop held with European and national banking associations on 16 September 2024, many of the disclosures proposed during the public consultation by banks and banking associations were dropped. Some datapoints have been integrated into existing Basic and Comprehensive module disclosures. During this workshop it was recommended to only propose to include the taxonomy disclosure as separate from the Basic and Comprehensive modules.

(g) The following diagram depicts the new structure of the VSME:



## 17 Disclosure level changes

- (a) In the cross-cutting part of the VSME, there have been several changes and additions to the content. In the section called **"Objective of this [draft] standard and to which undertakings it applies"**, the order of the objectives has been changed in order to emphasise that the primary objective of this standard is to support SMEs in providing information that will help to satisfy user's demands (large undertakings and financial institutions).
- (b) A principle on **"Comparative information"** has been added in the **"principles for preparation"** section. This has been moved from the Basic module's introduction to the principles, to make this a principle valid across the standard. In parallel to the comparative information, the **"if applicable"** principle has now been extended to the Comprehensive module and it has been clarified that if a datapoint is not applicable to the SME, omitting its disclosure will be considered as not applicable. Moreover, on **timing** it has also been specified that if the report is prepared on the demand of the users, it shall then be prepared on an annual basis. With regards to **classified information**, it has been clarified that if information is omitted due to confidentiality, it shall be stated as such.
- (c) In **B1** (basis for preparation), some datapoints have been added following the public consultation and some datapoints were moved from former PAT Module (N1) in VSME ED. A total of seven new metrics have been added to B1 following the public consultation. The metrics that have been added are the following: 1) the undertaking's legal form, 2) the NACE sector classification code(s), 3) size of balance sheet (in euros), 4) turnover (in euros), 5) number of employees in full time equivalents (FTEs) or headcount, 6) country of primary operations and location of significant asset(s), and 7) geolocation of sites owned, leased or managed. For these additional datapoints, specific guidance has been created, including guidance tables. In addition to these 7 datapoints, the former N1 datapoints have also been inserted in **B1** (as explained above).

## Revised VSME after Public Consultation – Approval – Cover Note PART B

- (d) **B2** has been added and complemented by inserting the simplified elements of former N3 and N5 into this B2. B2 now covers the policies Policies, Actions and future initiatives along with including information on who is responsible for the monitoring. Former disclosure **B11**'s focus on Workers in the value chain, affected communities, consumers, and end-users, has now been integrated within the 10 sustainability issues listed in the guidance of B2.
- (e) For Disclosure **B3** (Energy and greenhouse gas emissions), GHG intensity has been added as a datapoint derived from the former AFI module. This datapoint was requested by banks. Additionally, the requirement on energy consumption was converted into a tabular format to ensure clarity on the breakdown between renewable and non-renewable sources for both electricity and fuels (examples of each case have been provided in the guidance). The rest is unchanged compared to VSME ED.
- (f) Disclosure **B4** (Pollution of air, water and soil) has not substantially changed. The “if applicable” has been clarified by asking to disclose only “when” the undertaking is legally required to disclose this information to the competent authority or has voluntarily been reporting according to existing Environmental Management Systems. The reference to EMAS has been removed. The guidance on calculations and applicability has been strengthened.
- (g) Disclosures **B5** (Biodiversity) and **B6** (Water) has not changed. The guidance has been enhanced.
- (h) Disclosure **B7** (Resource use, circular economy and waste management) has been simplified as requested in the public consultation phase. B7 has been simplified by removing the recyclable and rate of recyclable content (former paragraph 33 a and b in the VSME ED) and introducing the concept of mass flows (paragraph 40(c)). Guidance has been provided for the concept of mass flows. In addition, the former paragraph 32 in VSME ED has been changed into a semi-narrative question on circular economy principles as this was agreed during the SR TEG meeting of 10 October 2024. Guidance on waste disclosures has been expanded on hazardous and radioactive waste, as well as to clarify the requirement on recycling and reuse.
- (i) Disclosure **B8** (Work-force - general characteristics) and **B9** (Work-force – health and safety) have not undergone significant changes compared to the VSME ED.
- (j) Disclosure **B10**'s (Workforce – Remuneration, collective bargaining and training) threshold has been adjusted to mirror the pay transparency directive.
- (k) Disclosure B12 has now become **B11** (Convictions and fines for corruption and bribery), and the formulation remains same as VSME ED since largely supported in public consultation.
- (l) No changes have been made to the **entity specific consideration** section (scope 3), now part of the newly called **Comprehensive module**. In the guidance, it has been specified that the SMEs in the manufacturing, constructions and/or packaging sectors are likely to have higher scope 3 emissions.
- (m) An additional datapoint of the exclusion from EU reference benchmarks (former AFI5) has been added to Disclosure **C1** (Revenues from certain sectors).

## Revised VSME after Public Consultation – Approval – Cover Note PART B

- (n) No changes have been made to Disclosure **C2** (Gender diversity ratio in governance body - former BP2). Despite this datapoint was confirmed in the public consultation, several discussions occurred at SR TEG because one SR TEG member indicated that for SMEs this may not be meaningful and thus should be deleted.
  - (o) Former Disclosures **BP3** (GHG emissions reduction targets) and **BP4** (Transition plan for climate change mitigation) have been merged into a single disclosure now called **C3** (GHG reduction targets and climate transition). The requirement on GHG emission reduction targets has been further broken down (target year, base year, etc.) to better guide the undertaking in its reporting. The disclosure on transition plans has been limited to undertakings in high climate impact sectors, made voluntary, and linked to the contribution of such plans to the reduction of GHG emissions.
  - (p) Disclosure **C4** (Physical risks from climate change - former disclosure) has been renamed to “Climate risks” and further simplified. The breakdown of the carrying value of the SMEs real estate assets has been removed from the standard. Additionally, the estimation of the monetary value of the physical risks has been replaced by a simpler assessment that requires to understand whether the financial performance/ business operations in the short, medium and long term, are perceived to have a high/medium/low risk. Additionally, the location of the significant assets has been moved to disclosure B1 (Basic module).
  - (q) Former disclosure BP6 (Hazardous waste and/ or radioactive waste ratio) has been integrated into **B7 Guidance**, to streamline the standard and remove redundancies.
  - (r) A new disclosure **C5** (Workforce general additional characteristics) has been added to the Comprehensive module. C5 is composed of a datapoint on non-employees (initially placed in B8 after the public consultation) and an additional datapoint requested by banking associations during the public consultation on the female to male ratio at management level. A datapoint on employees with disabilities was added after the public consultation and then removed following bank workshop.
  - (s) Former disclosures **BP7** (Alignment with internationally recognised instruments) and **BP8** (Processes to monitor compliance and mechanisms to address violations) have been merged into a single disclosure now called **C6** (Human rights policies and processes) and it has been simplified as seminarrative.
  - (t) Disclosures **C6** (Human rights policies and processes) and **C7** (Severe human rights incidents) have been significantly reformulated and simplified to follow a Y/N answer approach to make it easier for SMEs to disclose on.
  - (u) Former disclosures **BP10** (Work-life balance) and **BP11** (Number of apprentices) were deemed as not relevant in the public consultation and were deleted following the SR TEG in July.
- 18 Lastly, EFRAG Secretariat has received 177 comments from SR TEG members, either of content or editorial nature, of which a majority have been implemented in VSME.

## Future work on VSME

- 19 During the public consultation, feedback has been received on the need for online platforms and tools + Implementation Guidances (IGs) that EFRAG will probably develop in

## Revised VSME after Public Consultation – Approval – Cover Note PART B

the future (see list below), after the VSME will be released to the European Commission. The following include:

- (a) SME IG ESRS Templates of report and mock up disclosure. EFRAG could cover this as part of the IG work.
- (b) SME IG list of sustainability matters per sector. EFRAG will cover this as part of the ongoing multi annual sector programme.
- (c) SME IG List of possible actions/policies for SMEs covering the ten topics. EFRAG plans to develop this as an IG for SMEs after the release of VSME. It would be used as a scrolling menu from the VSME online platform template.
- (d) SME IG Implementation guidance linking VSME and CEN CENELEC standards. To be activated depending on resource availability and priority, given the pipeline of IG. Map ISO 14001 to VSME.
- (e) SME IG Provide a full list of pollutants.
- (f) SME IG Examples of climate change transition plans for SMEs.
- (g) SME IG Examples of impacts on workers in the value chain and affected communities for SMEs.

### Approval of draft VSME in this SR TEG meeting

- 20 As per article 42 of EFRAG Internal Rules<sup>1</sup>, in all decisions of EFRAG SR TEG, a simple majority will apply. However, as always in practice the EFRAG SR Chair is committed to promote a consensus approval to the maximum extent possible. Only if consensus is not possible, the majority vote will apply.
- 21 Members that cannot attend this meeting are invited to provide their written intention of vote head of the meeting.
- 22 EFRAG SR TEG members may either approve or dissent. A dissent may only be justified by a disagreement on fundamental elements of the VSME Standard. A dissenting on the VSME standard will have to be justified by the dissenting member. Members that intend to dissent will have to provide an explanation that will be reported to the EFRAG SRB.
- 23 Once draft VSME standard is approved, the EFRAG Secretariat will proceed with further editorial changes and improvements (formatting, potential spelling errors, references to number of paragraphs, etc.) and then will submit the VSME standard for approval by the EFRAG SRB.

#### Question[s] for EFRAG SR TEG:

- 24 Does SR TEG approve to recommend that the EFRAG SRB issues this VSME standard to the European Commission?

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<sup>1</sup> [EFRAG Internal Rules - Approved by the GA 28 April 2022- .pdf](#)



## Revised VSME after Public Consultation – Approval – Cover Note PART B

### Next steps

- 25 Approval at SRB is planned for 13 November 2024.
- 26 Deadline to deliver to the EC is 20 December 2024. Basis for conclusions may be completed in January.

### Agenda Papers

- 27 In addition to this cover note, agenda papers for this session are:
  - (a) Agenda paper 04–02 Revised VSME after public consultation for SR TEG approval (clean version); and
  - (b) Agenda paper 04–03 Revised VSME after public consultation for SR TEG approval (markup from VSME ED).